

Hearing on

**“The Volcker Interim Report on the United Nations
Oil-for-Food Program”**

**Sub-committee on Oversight and Investigations
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**Statement Submitted By
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Thank you, Mr. Chairman, for the opportunity to testify before this distinguished Committee on the findings of the Independent Inquiry Committee (IIC) of the United Nations Oil-for-Food program and to assess the implications of these findings for on-going concerns about UN management and reform. Although the IIC has much work yet to do, this interim report, combined with the release of audits in January, has moved us substantially down the road of determining detailed answers which US citizens and the Iraqis whom the program was meant to aid fully deserve.

Today I will confine my remarks to three critical areas:

- 1> What have we learned in the IIC report relative to charges made about the Oil-for-Food program?
- 2> In reviewing these findings, what is particularly ‘broken’ in the system that led to the abuses, irregularities and inaccuracies found?
- 3> Can the UN system correct its inadequacies and overcome its flawed behavior to build an effective, honest organization?

The IIC Findings

The interim report issued by the Volcker Commission provides substantial data and analysis in various areas that have dominated the debate thus far. First, Mr. Volcker has separated throughout the report matters of the Oil-for-Food (OFF) program which were within the purview of the UN Secretariat from those which were a function of the Security Council. In so doing he reminds us that UN member states - through the Council and the 661 sanctions committee – structured and managed many aspects of the OFF program with various strategic and political considerations in mind. He recognizes how this often led the member states to take decisions outside of the OFF which countervailed the sanctions regime and permitted, it would seem, Saddam to garner illicit assets outside the eye of the OFF. But the full scope of that inquiry will be revealed in a future report. To Mr. Volcker’s credit he does not permit this reality of Security Council control to excuse impropriety and mismanagement of OFF in the Secretariat, issues to which I now turn.

Volcker discusses in detail the 2.2 percent of the proceeds from Iraqi oil sales which covered the UN’s administrative costs. Volcker found that the UN did not treat the account as a “commission,” as has been alleged; it was not a profit-making enterprise in either design or practice. Rather, the commission found that the 2.2 percent account was a legitimate and transparent charge for Oil-for-Food administrative expenses.

The commission did find a few instances of inadvertent miscoding and one isolated instance where remuneration was not correctly allocated. But the UN’s Board of Auditors routinely audited accounting and financial reporting processes. The commission acknowledged that the external audit reports were distributed to the Security Council and others.

In this regard there is also something significant in what the Volcker report did not find or state. Critics have contended that the 2.2 percent fund provided such inflated

revenue to the UN that the Secretariat had every incentive to enhance Iraqi use, if not abuse, of the system and thus derive more income from high volume. No evidence that UN staff or Secretariat decisions attempted to inflate Iraqi use of OFF exists. In fact, the report notes numerous instances where UN officials brought to the 661 Committee evidence of Iraqi product or price manipulation which – if permitted – would have increased UN funds thru the 2.2 administrative formula. Moreover, in the seven years of the program's operation its funds totaled \$1.4 billion; of these funds, the UN returned \$372 million— nearly 27 per cent of the funds.

The report examines in detail the three contracts awarded in 1996 for goods inspection and banking services in the Oil-for-Food. The report provides documentation to support one case of conflict of interest, involving Benon Sevan, chief administrator of the Office of the Iraq (OIP) program. The report strongly suggests that he profited from illegal oil allocations, in direct violation of UN policy, but it does not claim that others in the UN knew of his actions or that his superiors knowingly tolerated them. In a quite different case, an official of the Department of Political Affairs, Mr. Joseph Stephanides, influenced the awarding of two contracts in violation of UN procedures. Both officials were suspended by the UN on Monday, and the Secretary-General has indicated that anyone named in the inquiry will have their diplomatic immunity lifted so that full accountability for abuse can be had.

Beyond these individual charges, the report concludes that the bidding process for these three 1996 contracts was highly politicized and deeply flawed, most notably because it violated the UN's own internal procedures and in the tensions existing between these rules and the Memorandum of Understanding (MOU) for the mobilization of the OFF program

Regarding corruption or incompetence under the personal leadership of a Secretary-General, all of the violations cited in the interim report took place in summer of 1996, when Boutros Boutros-Ghali served as Secretary-General. Certainly there is more to learn about the UN and Mr. Annan in the later years of Oil-for-Food, most especially regarding allegations about his son's relationship with the program and his employer, the Swiss company, COTECNA. Mr. Volcker has promised a report on these issues soon.

What is broken in the system that led to these findings and flaws?

The IIC provides some direct answers, and some indirect ones, regarding what led to and sustained the manner in which the UN system went awry. The most significant and debilitating aspect of the system under investigation may reside in the Internal Audit Division (IAD) and the larger Office of Internal Oversight Services (OIOS). Various factors combined to lead to the series of inadequacies in IAD which the IIC thoroughly details in chapter 5. Insufficient numbers of staff relative to the growing and then insurmountable work load that was the OFF was compounded by lack of oversight. In addition, the jurisdictional ambiguities of the Memorandum of Understanding between the UN and Iraq and the Sanctions Committee regarding certain goods review procedures meant that numerous errors of omission occurred in IAD performance.

As I weigh the inadequacies of administration, the sub-standard auditing of the UN Oil-for-Food program, and the scope of wrongdoing detailed in the report, I see a weakened and battered Secretariat that needs restructuring in areas I will note below.

But these realities and the report's evidence simply do not add up to either 'systemic' corruption or organizational incompetence. We did not have auditors doctoring the books. The scope and detail of the inquiry should inspire confidence – and this appears echoed by Mr. Volcker in his remarks in various venues since last Thursday – that this is not a bureaucracy run amok, nor a cadre of administrators lining their pockets.

The second and most unfortunate dimension of the UN system that failed lies in the chasms of authority and accountability that exists when the Security Council and the Secretariat each have responsibility (or lack thereof) regarding UN action in complex applications of its mandate. To assign blame to the UN Secretariat for “failure to follow its own internal procedures” regarding contracting and auditing, ignores the hard political reality that surrounded Oil-for-Food, where the dominating political and procedural actor at every juncture was the Security Council.

The Council's determination was first to hold together a regional coalition of states who would continue to participate in denying Saddam Hussein military goods, and then to maintain the flow of humanitarian relief to the people of Iraq. That the entire sanctions process and the Oil-for-Food program were politicized and that the Security Council, and its individual members, made critical decisions that overrode the normal mandates of UN agencies, should surprise no one. Perhaps the final report will make this clear.

Toward Meaningful UN Reform.

Mr. Volcker's frank assessments can provide both hope and direction for meaningful UN reform. The inquiry itself has generated a new and needed climate of transparency within the organization. Calls for reformation have been in the air since the IIC commenced its work, and I believe the challenges placed on the agenda by Congressional hearings has created a momentum for renewal and reorganization of staff and structure that is unprecedented in the 60 year history of the organization.

I advocate that the Congress seize this opportunity in constructive engagement with the UN guided by a hardcore realism. As unique as the Iraq sanctions saga and its related unprecedented mechanisms like the Oil-for-Food program may have been, the hard truth is that we are just a few short events away from again finding this scenario:

a resource rich nation, run by a dictatorial regime, engages in law-violating actions against its own population and its neighbors. These actions occasion coercive UN economic sanctions, the success of which put various elements of the target nation's vulnerable population at risk. In an attempt to manage and administer the punishment, the Security Council establishes a percentage of the target's international accounts be charged for border monitoring and humanitarian relief.....

This is not a fictitious possibility, but a real crisis contingency for which we must be prepared. Substantial and successful preparation dictates that the US join with the UN to achieve a number of UN reforms. The ones I believe most essential include that:

- the adoption of the Volcker proposals for reforming the UN audit system as detailed in chapter 5 of the report;

- future sanctions resolutions must clearly and unequivocally prohibit a role for the targeted state in negotiating any part of penalty mechanisms, re-adjustments of sanctions, or aspects of humanitarian programs;
- the internal review rules of sanctions committees must be reformed so that if some portion of the committee, let us suggest five of the fifteen members, seek to initiate policy reviews of committee workings, such will occur;
- UN Memoranda of Understanding must be reconciled with internal UN management and procurement policies at the outset of any sanctions incident or international relief program;
- the Council should standardize the creation of a high level, independent, investigative panel of experts who evaluate sanctions implementation, assess abuse charges, and review the review processes within six months of each sanctions imposition;
- the liaison and management of the Sanctions Committees should be moved from the Department of Political Affairs to an independent Coordinator of Sanctions Affairs who would be less involved with member states sentiments, and charged exclusively with sanctions implementation and monitoring;
- A new conflict of interest and anti-corruption code of conduct should be developed for members of the UN Secretariat. And member states will need to recognize their own obligations not to create such situations as compromise the international civil servants which comprise the organization.

These recommendations will go a long way to making for a leaner, more transparent and fundamentally honest United Nations sanctions system. Only with such reforms will the UN be equipped to meet the needs of member states like the United States who will inevitable turn to Security Council action as a way to uphold the rule of law and preserve security in the decades ahead.

Thank you.

Respectfully submitted,

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